

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is intended to be an easily readable analysis of the City of Burien's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter that begins on page 1-1 and with the financial statements and notes to the financial statements that follow this analysis.

FINANCIAL HIGHLIGHTS

The Assets of the City of Burien exceeded its liabilities at the close of the most recent fiscal year by \$73 million. Of this amount almost \$59.6 is invested in capital assets net of related long term debt and the remaining \$13.4 million is available for debt service, capital projects and to meet the government's ongoing activities and obligations.

The City of Burien's total net assets increased by \$5.9 million in 2005. Government activities provided 91.4% of this increase with the remainder being provided by the business-type activities.

As of year end December 31, 2005 the City of Burien's governmental funds reported combining ending fund balance of \$11.9 million, a decrease of \$2.9 million in comparison with the prior year. This decrease is primarily due to a large property purchase in the Town Square Capital Project Fund and the city's share of expenditures made on two large street projects in the Transportation Capital Project Fund.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$845,605, or 6.6% of total general fund expenditures. While this is down from the \$1.2 million in unreserved General Fund, fund balance for 2004, it is still within the range of ending fund balance recommended in the financial policies. The decrease is predominantly due to a large transfer of fund balance in excess of the financial policy required fund balance amount, to the capital project funds in the current year.

The City of Burien's total long term debt decreased by \$294,838, which is attributed to regularly scheduled debt service payments.

REPORT LAYOUT

The Government-wide financial statements are designed to provide readers with a broad overview of the City of Burien's finances in a manner similar to a private sector business. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, transportation, economic development, culture and recreation, community development and general government administration. Business-type activities consist of a storm water management system. The government-wide statements include the Statement of Net Assets and the Statement of Activities. The report also provides for significant major funds financial statements which provide more detail than the government-wide statements. Where combined information has been presented, later statements will provide combining information. Budgetary information is provided for operating governmental funds. The

notes to the financial statements are an integral part of this report. Finally, there is supplemental information provided related to the financial activity of the City.

The city's Comprehensive Annual Financial Report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statements 34, 36, 37, 38, and 40.

STATEMENT OF NET ASSETS

The focus of the Statement of Net Assets is to present all of the City of Burien's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Burien is improving or deteriorating.

STATEMENT OF ACTIVITIES

The focus of the Statement of Activities is to present the major program costs and match major resources with each. To the extent a program's cost is not recovered by grants and direct charges, it is paid from general taxes and other resources. This Statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and or subsidized by general revenues.

Following the government-wide statements is a section containing fund financial statements. The City's major funds are presented in their own column and the remaining funds are combined into a column titled "Other Governmental Funds." For each major fund, a Budgetary Comparison Statement is presented. Readers who wish to obtain information on non-major funds can find it in the Combining Schedules of Non-major Funds and or the Supplemental Information-Budgetary Comparison Schedules sections of this report. Finally, completing the document is a series of other financial and statistical schedules, and the reports by the independent auditors, as required by statute. The MD&A is intended to explain the significant changes in financial position and differences in operations between the current and prior year.

CITY AS A WHOLE

GOVERNMENT-WIDE FINANCIAL STATEMENTS

An analysis of net assets over time may serve as a useful indicator of a government's financial position. In the case of the City of Burien, assets exceeded liabilities by \$73 million at the close of the fiscal year.

During fiscal year 2005 the major change to the balance of net assets is the increase in capital assets, net of related debt, which is predominantly a result of the purchase of several parcels of land and the continuation of several capital projects. Two major street, in the Transportation Capital Projects Fund, and two parks projects in the Parks and General Government Capital Projects Fund, were completed in 2005 resulting in a decrease in Construction Work in Progress and an increase in Infrastructure, and the purchase of the future site of the combined county library/city hall property and another site were purchased in the Town Square Capital Project Fund. A condensed version of the Statement of Net Assets at December 31, 2005 is presented on the following page.

City of Burien's Net Assets at Year-End

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 14,865,060	\$ 18,240,721	\$ 831,066	\$ 952,994	\$ 15,696,126	\$ 19,193,715
Capital assets, net of accumulated depreciation	62,064,409	53,910,343	3,421,756	2,789,960	65,486,165	56,700,303
Total assets	\$ 76,929,469	\$ 72,151,064	\$ 4,252,822	\$ 3,742,954	\$ 81,182,291	\$ 75,894,018
Long-term liabilities	\$ 6,011,993	\$ 6,305,831	\$ -	\$ -	\$ 6,011,993	\$ 6,305,831
Other liabilities	2,044,314	2,416,031	77,904	79,307	2,122,218	2,495,338
Total liabilities	\$ 8,056,307	\$ 8,721,862	\$ 77,904	\$ 79,307	\$ 8,134,211	\$ 8,801,169
Net Assets:						
Invested in capital assets, net of related debt	\$ 56,250,350	\$ 47,794,329	\$ 3,421,756	\$ 2,789,960	\$ 59,672,106	\$ 50,584,289
Restricted	11,777,207	14,474,011	-	-	11,777,207	14,474,011
Unrestricted	845,605	1,160,862	753,162	873,687	1,598,767	2,034,549
Total Net assets	\$ 68,873,162	\$ 63,429,202	\$ 4,174,918	\$ 3,663,647	\$ 73,048,080	\$ 67,092,849

Governmental Activities

By far the largest change was in capital assets net of related debt, which increased \$8.4 million. This is attributed to several property purchases in the Town Square Capital Project Fund and the completion of two large parks construction projects in the Parks and General Government Capital Projects Fund and two major street projects in the Transportation Capital Projects Fund.

Business-type Activities

Storm Water Management: During 2005 a large piece of property was purchased as the site of a future detention facility.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2005:

Governmental activities resulted in a net increase in the City of Burien's net assets of \$5.4 million. A summary version of the Statement of Activities follows.

Summary of Revenues

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 2,666,076	\$ 1,962,819	\$ 1,555,745	\$ 1,282,132	\$ 4,221,821	\$ 3,244,951
Operating grants & contributions	1,951,238	2,019,889	-	-	1,951,238	2,019,889
Capital grants & contributions	3,655,869	2,435,313	-	-	3,655,869	2,435,313
General Revenues:						
Property taxes	4,256,885	4,051,825	-	-	4,256,885	4,051,825
Sales Taxes	4,816,460	4,715,981	-	-	4,816,460	4,715,981
Other Taxes	4,571,922	4,270,041	-	-	4,571,922	4,270,041
Investment Interest	468,386	218,257	33,315	18,390	501,701	236,647
Total Revenues	\$ 22,386,836	\$ 19,674,125	\$ 1,589,060	\$ 1,300,522	\$ 23,975,896	\$ 20,974,647

Summary of Expenses

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Expenses						
General Government	\$ 2,961,323	\$ 3,204,891	\$ -	\$ -	\$ 2,961,323	\$ 3,204,891
Public Safety	6,732,456	6,414,285	-	-	6,732,456	6,414,285
Physical Environment	169,743	188,712	-	-	169,743	188,712
Transportation	3,496,991	3,671,190	-	-	3,496,991	3,671,190
Economic Environment	1,236,388	1,102,345	-	-	1,236,388	1,102,345
Health and Human Services	52,995	55,773	-	-	52,995	55,773
Culture and Recreation	2,237,990	1,937,012	-	-	2,237,990	1,937,012
Interest on Long-term Obligations	135,118	148,232	-	-	135,118	148,232
Storm Drainage	-	-	997,661	952,761	997,661	952,761
Total Expenses	\$ 17,023,004	\$ 16,722,440	\$ 997,661	\$ 952,761	\$ 18,020,665	\$ 17,675,201
Increase in net assets before transfers	\$ 5,363,832	\$ 2,951,685	\$ 591,399	\$ 347,761	\$ 5,955,231	\$ 3,299,446
Transfers	80,128	223,075	(80,128)	(223,075)	-	-
Increase in net assets	\$ 5,443,960	\$ 3,174,760	\$ 511,271	\$ 124,686	\$ 5,955,231	\$ 3,299,446
Net assets - beginning	63,429,202	60,254,442	3,663,647	3,538,961	67,092,849	63,793,403
Net assets - ending	\$ 68,873,162	\$ 63,429,202	\$ 4,174,918	\$ 3,663,647	\$ 73,048,080	\$ 67,092,849

**GOVERNMENTAL AND PROPRIETARY ACTIVITIES
FOR FISCAL YEAR ENDING DECEMBER 31, 2005**

Governmental Activities

With only a couple of exceptions, governmental program revenues and expenses remain similar to the prior year. The two largest difference are an increase of \$700,000 in charges for services and a \$1.2 million increase in capital grants and contributions in the Transportation and Parks and General Government Capital Projects funds. This is a result of the two street projects mentioned above, the Maplewild Ave SW Earthquake Repair and the Sylvester Road SW Reconstruction, projects in the Transportation Capital Projects Fund and the Seahurst Seawall Removal project and a parks land acquisition project funded in part with a grant in the Parks and General Government Capital Projects fund.

Business-type Activities

Storm Water Fund revenues increased and expenditures have remained relatively constant for the last few years. With the completion of the Stormwater Master Plan a rate increase was approved beginning in 2005 to help fund the projects proposed in the Plan.

BUDGETARY HIGHLIGHTS

The City Council approved two changes to the adopted budget. The first was to mainly bring forward the prior year's ending fund balances to the current year's beginning fund balances. The second budget amendment approved, several transfers of funds available, in excess of council policy, in the operating funds to the capital improvement programs. It also approved the Senior Center relocation, the purchase of property and other unforeseen projects identified after the preparation of the original budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

As of December 31, 2005 the City had invested \$65.5 million in capital assets as reflected in the following table, which represents a net increase (additions, deductions and depreciation) of \$8.8 million. Additional detailed information on Capital Assets is available in the notes to the financial statements.

**CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
Land	\$ 18,640,904	\$14,692,107	\$1,044,682	\$495,976	\$ 19,685,586	\$ 15,188,083
Buildings	1,910,625	2,060,692	-	-	1,910,625	2,060,692
Improvements other than buildings	2,130,583	626,087	12,399	14,879	2,142,982	640,966
Machinery and equipment	442,015	547,186	21,234	24,621	463,249	571,807
Infrastructure	34,082,235	28,289,397	1,974,687	2,056,286	36,056,922	30,345,683
Construction in progress	4,858,047	7,694,874	368,754	198,198	5,226,801	7,893,072
Total	\$62,064,409	\$53,910,343	\$3,421,756	\$2,789,960	\$ 65,486,165	\$ 56,700,303

The following table reconciles the change in capital assets. Included within additions are construction work in progress (CWIP) balances. For governmental activities the CWIP amount is \$4.8 million which is comprised of the town square, parks and street improvement projects still under construction. This large decrease, \$2.8 million in governmental activities is predominantly due to the completion of the Maplewild Avenue SW Earthquake Repair, and the Sylvester Road, projects being completed during the year and transferred to Infrastructure. For business-type activities the CWIP is \$369 thousand, which is predominately for planning and design costs of projects which have progressed to the point of entering the construction phase.

CHANGE IN CAPITAL ASSETS

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
Changes in Capital Assets						
Land	\$ 3,948,797	\$ -	\$ 548,706	\$ 25,945	\$ 4,497,503	\$ 25,945
Buildings	(150,067)	(103,034)	-	-	(150,067)	(103,034)
Improvements other than buildings	1,504,496	(115,047)	(2,480)	(2,479)	1,502,016	(117,526)
Machinery and equipment	(105,171)	(119,904)	(3,387)	(12,343)	(108,558)	(132,247)
Infrastructure	5,792,838	(736,726)	(81,599)	51,527	5,711,239	(685,199)
Construction in progress	(2,836,827)	4,850,909	170,556	106,209	(2,666,271)	4,957,118
Total	\$ 8,154,066	\$ 3,776,198	\$ 631,796	\$ 168,859	\$ 8,785,862	\$ 3,945,057

OUTSTANDING DEBT

As of year-end 2005 the City had \$5.8 million in debt outstanding compared to \$6.1 million last year. This \$300 thousand decrease is the result of normal debt principal payments.

OUTSTANDING DEBT AT YEAR END

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 2,850,000	\$ 2,970,000	\$ -	\$ -	\$ 2,850,000	\$ 2,970,000
Special Assessment debt with government commitment (Public Works Trust Fund Loan)	897,222	950,000	-	-	897,222	950,000
Public Works Trust Fund Loan	2,066,837	2,196,014	-	-	2,066,837	2,196,014
Total	\$ 5,814,059	\$ 6,116,014	\$ -	\$ -	\$ 5,814,059	\$ 6,116,014

There were no new borrowings during the year. A Public Works Trust Fund loan in the original issue amount of \$1 million is being repaid by a Special Assessment against the benefiting property owners on the 152nd Street Capital Improvement Project, and the remaining debt is being repaid from general revenues of the city. The city is contemplating a new bond issue in the near future, and our most recent issue, in 2002, was rated A3 by Moody's. For more detailed information on the City's debt and amortization terms refer to the Notes to the Financial Statements.

ECONOMIC FACTORS

While property taxes are important to the City, they only represent 18.8% of total governmental resources. Sales taxes, and Business and Occupation/utility taxes, comprise approximately 21.4% and 12.6% of these resources respectively and inter-governmental revenues from state shared revenues and grants make up just over 23.5% of total resources. With the economy continuing to recover after an extended downturn these sources of revenues appear to be recovering with increases in all categories. The City continues to monitor all of its resources and determines the need for program adjustment or fee increases as necessary.

NEXT YEAR'S BUDGETS AND RATES

The 2006 fiscal year budget projects an 8% increase in resources and a 6% increase in expenditures for the following year. The single largest increase is projected to be for employee benefits, which has been offset by a decrease in capital expenditures in the operating funds. Surface water management fees increased 20% in 2005. This is the first rate increase for the Surface Water Management fund since the city incorporated in 1993. These additional funds are projected to be used for implementation of the recently completed Storm Water Master plan.

FINANCIAL CONTACT

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance and Administrative Services Director at 415 SW 150th Street, Burien, Washington 98166.